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Key Funding Source for Miners Is Depleted

A Glencore zinc mine in Canada *Photo: Valerian Mazataud/Bloomberg News*

By

Tatyana Shumsky

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For struggling mining companies, an important source of financing is growing scarce.

Contending with falling profits and hefty debt payments, mining companies such as [Glencore PLC](#) and [Vale SA](#) this year increasingly turned for cash to specialist lenders who pay large lump sums in exchange for metal deliveries.

But companies that provide the vast majority of this kind of financing through “streaming deals” are running low on capital after striking a record \$4.07 billion of deals in 2015, nearly quintuple the level in 2014.

“We just don’t feel the pressure that we need to go out and duplicate our efforts that we did in 2015,” said Tony Jensen, chief executive of Denver-based [Royal Gold Inc.](#), one of the big streaming companies. He said the company has about \$450 million available for new loans. That compares with about \$1.3 billion for 2015, according to estimates by Canaccord Genuity, a financial-services firm.

Canadian streaming company [Silver Wheaton Corp.](#) in November paid Glencore \$900 million in exchange for 33.5% of silver production from the Antamina copper mine in Peru. The cash infusion helped Glencore pay down its debt and stave off investor ire that had triggered big swings in the company’s share price.

Silver Wheaton, though, doesn’t currently have capacity for another blockbuster deal, said its chief executive, Randy Smallwood. The company has roughly \$500 million left in its line of credit after doubling it to \$2 billion earlier this year and is reluctant to sell stock or get deeper into debt, he said. Mr. Smallwood said he expects profits from operations to add an additional \$500 million to Silver Wheaton’s arsenal by the end of 2016.

Silver Wheaton is studying sharing its deals with others in a process called syndication, but “we’re not quite convinced it’s the best thing for us yet,” Mr. Smallwood said.

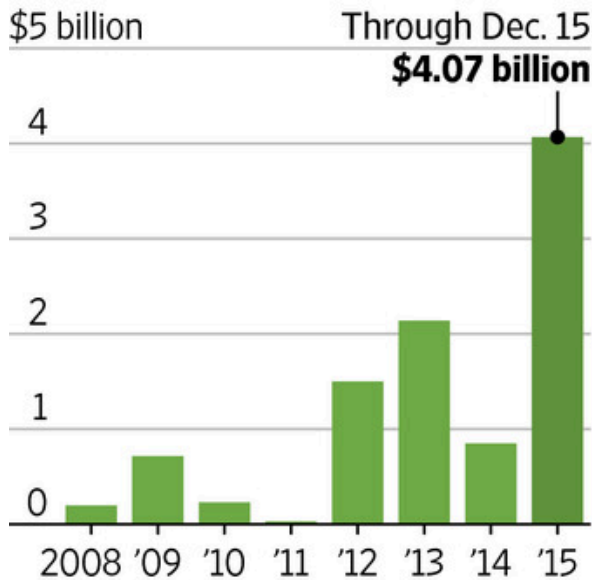
Silver Wheaton, Royal Gold and Canada’s [Franco-Nevada Corp.](#) will start 2016 with an estimated \$1.4 billion to deploy, according to an analysis of the companies’ financial statements by Canaccord Genuity analyst Peter Bures. That compares with an estimated \$4.7 billion on hand in the first quarter of 2015. A representative of Franco-Nevada declined to comment. Mr. Bures said those three companies account for more than 80% of lending capacity.

“It’s not a bottomless pit, they’ve pretty much used up their capacity,” said John Bridges, mining analyst with [J.P. Morgan Chase & Co.](#)

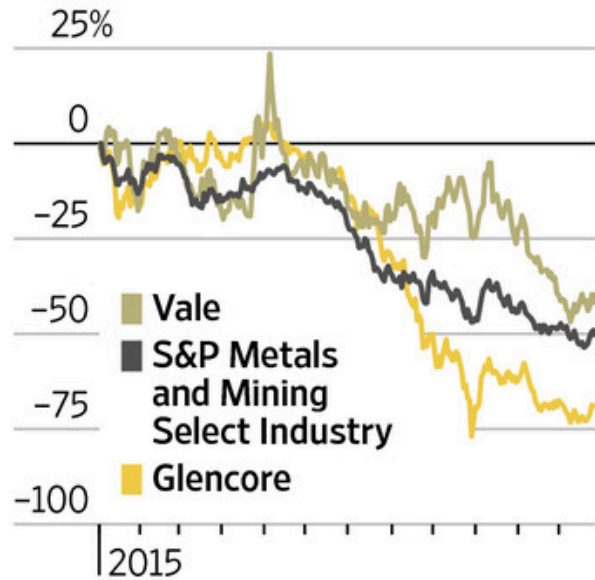
Gold Rush

Miners have raised a record amount of cash from the presale of precious metals as they grapple with low commodity prices.

Value of 'streaming' and royalty deals



Performance of selected mining stocks this year



Sources: BMO Capital Markets; FactSet (performance)
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The drop in lending capacity reduces mining companies' lifelines as they contend with a protracted downturn. Tumbling metal prices and plentiful supply of everything from iron ore and copper to nickel and coal have reduced profits and mining companies' ability to repay debts.

Meanwhile, traditional avenues for raising cash, like bond or stock sales, have essentially closed to all but the most well-capitalized mining firms.

Glencore's troubles this year have been emblematic. Glencore's shares have plunged 66% in 2015 on worries about its credit rating and ability to service its debt. Glencore declined to comment. Glencore's management has previously assured investors of the company's ability to pay its debts and has put mines and other assets up for sale to reduce debt. It also has said it might do more streaming deals in 2015.

Vale in March sold 25% of the gold produced by its Salobo copper mine in Brazil to Silver Wheaton for \$900 million, doubling the streaming company's share of the mine's gold output. The deal buttressed Vale's balance sheet when the price of iron ore, the company's main product, tumbled to decade lows. The streaming deal helped put a value on the gold in the copper mine that the market hadn't previously recognized, said Vale spokeswoman Patricia Malavez.

Streaming companies use the proceeds from share sales and borrowings from bank credit lines to provide financing to mining firms. The streaming company pays the miner a large sum upfront. In exchange, the company receives the right to buy, at below-market prices, a portion of the precious metals that usually come out of the ground during the mining of industrial metals.

Streaming companies often have the right for the life of the mine, meaning that they continue to get deliveries of metals long after they have recouped their upfront payment.

Executives at streaming companies said they are reluctant to raise capital by selling shares, which have slid together with precious-metals prices, and they already have hefty debt loads themselves.

Other firms have started to test the market for streaming deals. [Blackstone Group](#) LP's Blackstone Tactical Opportunities and Orion Mine Finance Group, an investment firm focused on the mining sector, have this year teamed up on two streaming-finance deals valued at a combined \$790 million, according to company filings.

"We're able to drive some spectacular deals," said Douglas Silver, portfolio manager with Orion.

Still, the largest three companies are currently considered the dominant source of future streaming deals.

"Mining is a capital-intensive business and at this point in time the options for capital are scarce," said Andrew Kaip, analyst with BMO Capital Markets.

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<http://www.wsj.com/articles/key-funding-source-for-miners-is-depleted-1451346684>